

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
	)	Order No.: CN 11-03
	)	
<b>PARK FEDERAL SAVINGS BANK</b>	)	Effective Date: January 24, 2011
	)	
Chicago, Illinois	)	
OTS Docket No. 00805	)	
	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Park Federal Savings Bank, Chicago, Illinois, OTS Docket No. 00805 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**Cease and Desist.**

1. The Association, its institution-affiliated parties,<sup>1</sup> and its successors and assigns, shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling, or aiding and abetting the unsafe or unsound practices and/or violations of law or regulation that resulted in the Association operating with: (a) policies and practices that are detrimental to the Association; and (b) inadequate earnings to augment capital as described in the comprehensive OTS Report of Examination of the Association dated July 6, 2010 (2010 ROE).

**Capital and Business Plan.**

2. By March 31, 2011, the Association shall submit a written plan (Capital and Business Plan) for the period beginning with January 1, 2011 through December 31, 2012 addressing the requirements of this Order and including capital enhancement strategies acceptable to the Regional Director. At a minimum, the Capital and Business Plan shall:

- (a) establish a minimum Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio commensurate with the Association's risk profile;
- (b) detail the Association's capital preservation and enhancement strategies with specific time frames to achieve and/or maintain the Board-established minimum capital ratios;
- (c) contain operating strategies to achieve realistic core earnings;
- (d) include quarterly financial projections (balance sheet and income statement), including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period covered by the Capital and Business Plan; and

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<sup>1</sup> The term "institution-affiliated party" is defined at 12 U.S.C. § 1813(u).

- (e) identify all relevant assumptions made in formulating the Capital and Business Plan and include a requirement that documentation supporting such assumptions be retained by the Association.
3. Upon receipt of written notice of non-objection from the Regional Director to the Capital and Business Plan, the Association shall implement and adhere to the Capital and Business Plan. A copy of the Capital and Business Plan shall be provided to the Regional Director within seven (7) days after Board approval.
4. Any material modifications<sup>2</sup> to the Capital and Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.
5. By December 31, 2011, and each December 31st thereafter, the Capital and Business Plan shall be updated and submitted to the Regional Director pursuant to Paragraph 2 above and shall incorporate the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

**Capital and Business Plan Variance Reports.**

6. Within forty-five (45) days after the end of each quarter, after implementation of the Capital and Business Plan, the Board shall review written quarterly variance reports on the Association's compliance with its Capital and Business Plan (Variance Reports). The Board's review of Variance Reports and compliance with the Capital and Business Plan shall include a review of the internal and external risks affecting the Association's ability to successfully

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<sup>2</sup> A modification shall be considered material under this Section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the Capital and Business Plan; or (b) exceed the level of any activity contemplated in the Capital and Business Plan by more than ten percent (10%).

implement the Capital and Business Plan. The minutes of the Board meeting shall fully document the Board's review and discussion. The Variance Reports shall:

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Capital and Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken by the Association to address identified variances.

7. A copy of each Variance Report shall be provided to the Regional Director within seven (7) days after the Board meeting at which it was reviewed and discussed.

**Allowance for Loan and Lease Losses.**

8. By March 31, 2011, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate allowance for loan and lease losses (ALLL Policy) to ensure that the Association addresses all corrective actions set forth in the 2010 ROE relating to the ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory guidance.

9. A copy of the ALLL Policy shall be provided to the Regional Director within seven (7) days of adoption by the Board.

**Internal Asset Review and Classification.**

10. By March 31, 2011, the Association shall revise its written internal asset review and classification program (IAR Program) to address the corrective actions set forth in the 2010 ROE relating to internal asset review and classification and to comply with all applicable laws, regulations and regulatory guidance. At a minimum, the IAR Program shall:

- (a) ensure the accurate and timely identification, classification, and reporting of the

Association's assets, including the designation of loans as special mention or placement of loans on a watch list where a borrower's credit standing has deteriorated;

- (b) detail the Association's loan grading system and specify parameters for the identification of problem loans for each type of loan offered by the Association;
- (c) establish time lines for internal asset reviews and updates for material loan relationships; and
- (d) require monthly reports be submitted to the Board detailing the Association's adversely classified, special mention and delinquency ratios.

11. A copy of the IAR Program shall be provided to the Regional Director within seven (7) days of adoption by the Board.

**Problem Assets.**

12. Effective immediately, the Association shall continue to develop, implement, and submit to the Regional Director, a written plan for the resolution of all REO properties and any adversely classified loans in excess of five hundred thousand dollars (\$500,000) (Resolution Plans). At a minimum, each Resolution Plan shall:

- (a) discuss the problems and weaknesses of each REO or loan;
- (b) establish reasonable targets and time frames for resolution; and
- (c) require quarterly reports to the Board on the Association's compliance with the established targets and time frames.

13. Within forty-five (45) days after the end of each quarter, the Association shall continue to submit a quarterly written status report for each Resolution Plan simultaneously to the Board and Regional Director.

**Restriction on Lending.**

14. Effective immediately, the Association shall not extend, directly or indirectly, without prior written non-objection from the Regional Director, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Association that has been charged off or classified, in whole or in part, as a “Loss” and has not been collected. The Association’s expenses incurred in connection with its real estate owned, including in-substance foreclosures, are not covered by this Paragraph.

15. Effective immediately, the Association shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower who has loans with the Association that are adversely classified as “Substandard” unless prior to extending such additional credit whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board or a designated committee thereof, who shall certify in writing:

- (a) the reasons why the extension of such credit is in the best interests of the Association using current underwriting information, such as updated borrower financial information and a current appraisal, if applicable; and
- (b) that an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the meeting of the Board or designated committee with a copy retained in the borrower’s credit file. The Association’s expenses incurred in connection with its real estate owned, including in-substance foreclosures, are not covered by this Paragraph.

### **Concentrations of Credit.**

16. By March 31, 2011, the Association shall revise its written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Credit Concentration Program) to address the corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Credit Concentration Program shall comply with all applicable laws, regulations, and regulatory guidance and shall:

- (a) establish comprehensive concentration limits expressed as a percentage of Tier 1 (Core) Capital plus the ALLL, and document the appropriateness of such limits based on the Association's risk profile;
- (b) establish stratification categories of the Association's concentrations of credit, such as land loans, construction loans, income property loans, nonresidential real estate loans, commercial loans, and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit and periodic market analysis for the various property types and geographic markets represented in its portfolio; and
- (d) in the event the concentration limits adopted by the Association in subparagraph (a) above are lower than existing concentration limits, the Board shall adopt within thirty (30) days a reduction plan (Reduction Plan) to bring the Association into compliance with its Credit Concentration Program. At a minimum, the Reduction Plan shall include:
  - (i) timeframes for achieving the reduction in dollar levels identified in response to subparagraph (a) above;

- (ii) provisions for the submission of monthly written progress reports to the Board for review and notation in the minutes of the meetings of the Board; and
- (iii) procedures for monitoring the Association's compliance with the Reduction Plan.

17. A copy of the Credit Concentration Program shall be provided to the Regional Director within seven (7) days of adoption by the Board.

**Credit Administration.**

18. By March 31, 2011, the Association shall revise its credit administration policies, procedures, practices, and controls covering non-homogeneous lending (Non-Homogeneous Credit Administration Policy) to ensure that it addresses the corrective actions in the 2010 ROE relating to non-homogeneous credit administration. The Non-Homogeneous Credit Administration Policy shall comply with all applicable laws, regulations and regulatory guidance and:

- (a) include policies, procedures, and systems to obtain and analyze, on at least an annual basis, updated borrower financial information;
- (b) include guidelines requiring that collateral properties be re-appraised prior to loans being modified, extended, or refinanced;
- (c) include guidelines requiring that current financial statements from the borrower be provided to the Association prior to loans being modified, extended or refinanced and that such financial statements be reviewed to determine whether the borrower has the ability to repay at the modified loan terms;
- (d) include a requirement for cross-collateralization of non-homogeneous collateral properties by each borrower; and



(e) include an effective system for the retention, review, renewal, and updating by the Association of all required records, filings, and other credit related documents.

19. A copy of the Non-Homogeneous Credit Administration Policy shall be provided to the Regional Director within seven (7) days of adoption by the Board.

**Liquidity Management.**

20. By March 31, 2011, the Association shall revise its written liquidity and investment policies (Liquidity Management Policy) to address the corrective actions set forth in the 2010 ROE relating to liquidity. The Liquidity Management Policy shall comply with all applicable laws, regulations, and regulatory guidance.

21. A copy of the Liquidity Management Policy shall be provided to the Regional Directory within seven (7) days of adoption by the Board.

**Management Oversight.**

22. By April 15, 2011, the independent<sup>3</sup> directors of the Association shall conduct a management review as outlined in Paragraph 23 (Management Study) and submit a copy of the Management Study to the Regional Director.

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<sup>3</sup> For purposes of this Paragraph, a director who is “independent” with respect to the Association shall be any individual who:

- (a) is not employed in any capacity by the Association or its subsidiaries, other than as a director;
- (b) is not related by blood or marriage to any officer or director of the Association or any of its subsidiaries, and who does not otherwise share a common financial interest with any such officer or director;
- (c) is not indebted, directly or indirectly, to the Association except for 1-4 family mortgage loans secured by a first lien on the borrower’s primary residence; and
- (e) has not served as a consultant, advisor, auditor, underwriter, or legal counsel to the Association or any of its subsidiaries.

23. The Management Study shall, at a minimum, include:
- (a) assessment of the current Senior Executive Officers,<sup>4</sup> the Association's organizational structure, and staffing levels of the Association;
  - (b) identification of present and future staffing requirements for each business line, including Senior Executive Officers, commensurate with the Association's business plan;
  - (c) detailed written job descriptions and minimum qualifications for all Senior Executive Officers;
  - (d) evaluation of each Senior Executive Officer's knowledge, skills, abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of each Senior Executive Officer's position;
  - (e) establishment of quantitative and qualitative standards by which the effectiveness of Senior Executive Officers' will be measured;
  - (f) evaluation of current lines of authority, reporting responsibilities and delegation of duties for all Senior Executive Officers, including identification of any overlapping duties or responsibilities or lack of independent checks and balances; and
  - (g) recommendations for correcting or eliminating any other deficiencies in the supervision or organizational structure of the Association.
24. By May 15, 2011, the Board shall develop a written plan to address any identified weaknesses or deficiencies noted in the Management Study (Management Plan) and provide a copy of the Management Plan to the Regional Director. The Board shall implement and adhere to the Management Plan.

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<sup>4</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

**Oversight of Compliance with Order.**

25. Effective immediately, the Board and Senior Executive Officers shall take immediate action to cause the Association to comply with the provisions of this Order and to complete all corrective actions required in the 2010 ROE. The Board shall review and adopt all policies and procedures required by this Order prior to submission to the OTS.

**Dividends and Other Capital Distributions.**

26. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

**Growth.**

27. Effective immediately, the Association shall not increase its average total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director.

**Golden Parachute Payments.**

28. Effective immediately, the Association shall not make any golden parachute payment<sup>5</sup> unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

**Directorate and Management Changes.**

29. Effective immediately, the Association shall comply with the prior notification

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<sup>5</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R.

Part 563, Subpart H.

**Employment Contracts and Compensation Arrangements.**

30. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such director or officer, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and Appendix A of 12 C.F.R. Part 570.

**Third Party Contracts.**

31. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association<sup>6</sup> or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that that the arrangement or contract complies with the standards and guidelines

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<sup>6</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

**Transactions with Affiliates.**

32. Effective immediately, the Association shall not engage in any new transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

**Effective Date, Incorporation of Stipulation.**

33. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**Duration.**

34. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

35. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

36. The Regional Director or an OTS authorized representative may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

37. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

38. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director  
Office of Thrift Supervision  
One South Wacker Drive, Suite 2000  
Chicago, Illinois 60606  
Facsimile: (312) 917-5001

(b) **To the Association:**

Chairman of the Board  
Park Federal Savings Bank  
5400 South Pulaski Road  
Chicago, Illinois 60632  
Facsimile: (773) 582-8657

**No Violations Authorized.**

39. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_/s/  
Daniel T. McKee  
Regional Director, Central Region

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

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In the Matter of	)	Order No.: CN 11-03
	)	
	)	
<b>PARK FEDERAL SAVINGS BANK</b>	)	Effective Date: January 24, 2011
	)	
	)	
Chicago, Illinois	)	
OTS Docket No. 00805	)	
_____	)	

**STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Park Federal Savings Bank, Chicago, Illinois, OTS Docket No. 00805 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

**WHEREAS**, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**Jurisdiction.**

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).
2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

**OTS Findings of Fact.**

3. Based on a comprehensive examination of the Association dated July 6, 2010 (2010 ROE), the OTS finds that the Association has engaged in unsafe or unsound banking practices and/or violations of law or regulation that resulted in the Association operating with:  
(a) policies and practices that are detrimental to the Association; and (b) inadequate earnings to augment capital as described in the 2010 ROE.

**Consent.**

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.



**Finality.**

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**Waivers.**

6. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

**OTS Authority Not Affected.**

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

**Signature of Directors/Board Resolution.**

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

**WHEREFORE**, the Association, by its directors, executes this Stipulation.

**PARK FEDERAL SAVINGS BANK**  
**Chicago, Illinois**

Accepted by:  
**Office of Thrift Supervision**

\_\_\_\_\_/s/\_\_\_\_\_  
David A. Remijas, Chairman

By:\_\_\_\_\_/s/\_\_\_\_\_  
Daniel T. McKee  
Regional Director, Central Region

\_\_\_\_\_/s/\_\_\_\_\_  
Robert W. Krug, Director

Date: See Effective Date on page 1

\_\_\_\_\_/s/\_\_\_\_\_  
John J. Murphy, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Richard J. Remijas, Jr., Director

\_\_\_\_\_/s/\_\_\_\_\_  
Victor H. Reyes, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Paul Shukis, Director